

RICHLAND SCHOOL DISTRICT NO. 400
Benton County, Washington
January 1, 1992 Through February 28, 1995

Schedule Of Findings

1. Public Funds Were Misappropriated And District Facilities, Equipment, And Personnel Were Used For Personal Benefit

We reviewed the internal investigation of Richland School District No. 400 (district) which revealed that at least \$600 of public funds as well as equipment and personnel were misappropriated by the auditorium manager. In addition to her duties as Facilities Booking/Auditorium Manager (manager) for the district, the manager operates JB Productions, a private for profit theatrical production company, and is an active partner in Seth Ryan Winery. Public funds were misappropriated as described below:

- a. The manager, in her private capacity, entered into a contract with Battelle Northwest to organize a celebration, honoring retiring members of Battelle's senior administrative team, held at the Red Lion Inn on April 5, 1994. The contract included writing and performing of an original mystery play. In fulfilling this contract, the manager used her position as an official of the district to write the play on a district computer in a district facility, use four district microphones in performing the play, and use a district employee to transport, test, and balance the microphones. The manager billed Battelle \$340 for the rental of four microphones and batteries as well as staff support. However, no payment was made by the manager to the district for the rental of the microphones, the use of the district employee or for the use of the district computer and facility. Further, the manager directed the district employee to charge the two hours spent on the Battelle project to the district. The manager then approved and submitted the time to the district for payment.
- b. In conjunction with the Battelle performance above, the manager hired another district employee, to provide acting services at the celebration. The agreed upon fee for his services was \$250. The manager offered to pre-pay this amount, but made out the check for \$450. She then directed the employee to take the check to her bank and cash it, keep \$250 and to take the rest to a "Checkrite" location to recover the manager's personal NSF check(s) and return the balance to her. Also as directed, the employee charged the time spent performing these errands to the district. The manager then approved and submitted that time to the district for payment. After the Battelle performance, the manager used the above canceled check as support for a billing to Battelle Northwest of \$500 for the actor's services, even though the contract called for a \$1,000 flat fee, \$100 per actor and actual expenses.
- c. On November 10, 1994, the manager directed two employees of the district to use a truck belonging to the district to transport some of the manager's personal property, including sections of chain link fencing, posts and related parts, from the loading dock at the Richland Auditorium to Seth Ryan Winery near Benton

City, Washington.

In addition to the above use of district equipment and personnel for private gain, the manager used her position to divert public funds as follows:

- d. G&B productions, a for profit business located in Spokane, Washington, rented the Richland Auditorium for a production of "Guys & Dolls". On October 18, 1994, the manager requested and received a check from G&B Productions in the amount of \$1,562.75 as payment for student work crews. This check was made payable to the manager and deposited in the manager's personal bank account. These students were excused from class and worked as stage hands at the direction of the manager, and should have been compensated through the school district's normal payroll system. Payments were made from the manager's personal account direct to the students. However, four of the student's hours were not paid from her personal account. Their hours were recorded on time sheets, approved by the manager and submitted to the district for payment. These four payments totaled \$260.
- e. G&B Productions again rented the Richland Auditorium for a production of "Secret Garden." Student work crews and technicians were arranged for by the manager. On January 13, 1995, the manager requested and received a check from G&B Productions in the amount of \$1,615.00 as payment for student work crews and technicians. This check was made payable to the manager and was deposited in the manager's personal bank account. On January 31, 1995, the manager wrote checks to pay the work crews and the two technicians.

RCW 42.20.10 states in part:

Misconduct of public officer. Every public officer who shall) . . .

(3) Employ or use any person, money, or property under his official control or direction, or in his official custody, for the private benefit or gain of himself or another;

Shall be guilty of a gross misdemeanor

RCW 42.20.040 states:

False report. Every public officer who shall knowingly make any false or misleading statement in any official report or statement, under circumstances not otherwise prohibited by law, shall be guilty of a gross misdemeanor.

RCW 42.24.110 states:

Municipal corporations and political subdivisions) Approving or paying false claims)

Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he shall be civilly liable on his bond to the municipal corporation or political subdivision, as the case may be, for the amount so paid or for three hundred dollars whichever is the greater.

RCW 42.52.050 states in part:

Rebate of Wages) Any . . . officer . . . or agent of an employer, whether
said employer be in private business or an elected public official, who
)

(1) Shall collect or receive from any employee a rebate of any part of wages theretofore paid by such employer to such employee; or . . .

(3) Shall willfully make or cause another to make any false entry in any employer's books or records purporting to show the payment of more wages to an employee than such employee received . . .

Shall be guilty of a misdemeanor.

The above activities occurred without timely detection as the district's internal controls over this one, rather unique, position were not adequate to properly monitor the activities of the facilities manager.

As a result, the manager was able to circumvent district policies and procedures.

In addition to the violation of RCWs listed above, Richland School District was deprived of at least \$600 rent and wages paid to the manager for use of the district's equipment and personnel.

We recommend Richland School District seek recovery of the misappropriated \$600 and related audit/investigation costs from the former auditorium manager and the district's insurance bonding company. We further recommend the Washington State Office of the Attorney General and Benton County Prosecuting Attorney's Office review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

Atlantic Mutual Insurance Company
Public Employees Blanket Dishonesty Bond
Policy No. 298-30-10-43
\$75,000
August 1, 1993, to August 1, 1995 with annual renewal.

We also recommend the district:

- a. Write a job description for the auditorium manager position which includes adequate controls to monitor employee activities.
- b. Adopt policies to restrict or eliminate outside employment which has the potential for a conflict with the individual's official duties.
- c. Use facilities, equipment, and personnel only for official public purposes.

2. Internal Controls Should Be Improved To Prevent Overpayments To Employees

A Richland School District internal investigation determined that the auditorium manager (manager) was overpaid at least \$17,061 during the period January 1, 1992, through February 28, 1995. There were no federal funds involved in these overpayments.

Time submitted by and paid to the manager in excess of time worked equaled at least 1,706.1 hours. These overpayments were as follows:

- a. 573 duplicate hours were claimed while already “on the clock” in another capacity.
- b. 262.6 hours were claimed for activity work which was beyond the time the activity would have been over and the facility closed.
- c. 94 hours were claimed for time when the manager was not physically present.
- d. 776.5 hours were claimed while working on other than Richland School District activities.

While it was cost prohibitive for the State Auditor to review each incident supporting these totals, we interviewed staff members and management officials who performed the internal investigation and we believe their criteria and calculations are valid.

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Every public officer who shall knowingly make a false or misleading statement in any official report or statement, under circumstances not otherwise prohibited by law, shall be guilty of a gross misdemeanor.

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Municipal corporations and political subdivisions) Approving or paying false claims)

Any person who knowingly approves or pays or causes to be approved or paid a false or untrue claim shall be guilty of a gross misdemeanor and, in addition, he shall be civilly liable on his bond to the municipal corporation or political subdivision, as the case may be, for the amount so paid or for three hundred dollars whichever is the greater.

The following internal control weakness allowed the manager to receive these salary overpayments without being detected. The supervisor who approved the manager's time sheets was not physically located where he could monitor her activities and was not knowledgeable enough about her job requirements to determine the reasonableness of the hours of work submitted by and paid to the manager.

This weakness in internal control allowed the submission of incorrect time sheets to occur without timely detection. This in turn caused the district to pay the auditorium manager at least \$17,061 plus benefits to which she was not entitled.

We recommend Richland School District seek recovery of the \$17,061 in salary overpayments, associated fringe benefits, and associated audit and investigation costs, from the former auditorium manager and their insurance bonding company. We further

recommend the Washington State Office of the Attorney General and Benton County Prosecuting Attorney's Office review this matter and take whatever action is deemed necessary under the circumstances. Any compromise or settlement of this claim must be approved in writing by the Attorney General and State Auditor as directed by RCW 43.09.260.

Bond coverage for district employees is as follows:

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We also recommend the district review its internal controls for time worked by personnel with multiple contracts and pay arrangements, correct the weakness outlined above, and implement an effective monitoring system for the time sheets of these employees.

3. Internal Controls Over Facilities Billing Should Be Improved

The billing database used by the district for billing for facility use does not contain sufficient controls to assure that the adopted fee schedule is followed. Data related to Hours of Use, Location Fee, Equipment, and Staff may be altered or left at zero and a lump sum dollar amount entered as Total Fee. Reports from this system are sent to central billing where the actual bills are prepared and mailed. However, no one in central billing is required to review the charges for compliance with the district's published fee schedule.

Our comparisons of services rendered to amounts billed indicated that employees were making subjective decisions about charges instead of following the prescribed fee schedule. It was deemed cost prohibitive for the examiner to reconstruct billings in order to determine if revenue was lost due to this practice.

The internal control system is defined as:

. . . that plan of organization and methods and procedures adopted by management to ensure that resource use is consistent with laws, regulations, and policies; that resources are safeguarded against waste, loss, and misuse; and that reliable data are obtained, maintained, and fairly disclosed in reports.

The combination of a database with weak controls and lack of a central review function creates internal control weaknesses.

The weakness in the data base system is inherent in the software being used. No oversight system to monitor billing decisions was established.

These weaknesses resulted in subjective billings which resulted in incorrect billings for the use of facilities.

We recommend internal controls over facilities billing be strengthened to assure accurate billing in accordance with the prescribed rate schedule. These controls should include a clear audit trail from the fee schedule, time sheets and other cost data to the client billing. We also recommend the district assign an individual in central billings to review facility charges for compliance with the fee schedule and provide a reporting mechanism when discrepancies are identified.